

Section 6 Fraud Prevention and Quality Assurance

6.1 General Information

The potential for fraud is a concern both at the federal and state level. We are committed to reducing the risk of fraudulent tax return filings. You can help prevent and detect fraud by:

- Verifying the identity of new clients.
- Informing your clients that FTB verifies W-2 and Child and Dependent Care Expenses Credit information.
- Verifying supporting information for the refundable Child and Dependent Care Expense Credit including:
 - Visually inspecting the social security card to verify the child's name and social security number,
 - Obtaining proof of care provided, such as copies of cancelled checks, and
 - Reviewing taxpayer and spouse (if married) earned income to determine if they meet the Child and Dependent Care Expenses Credit requirements.
- Questioning Forms W-2 that seem altered or suspicious.
- Identifying similar W-2 information between clients, such as employers, wagers, and withholding.
- Identifying similar return information between clients, such as refund amounts, number of dependents, and number of Forms W-2.
- Questioning refunds on different returns directed to the same address or post office box.
- Asking taxpayers for social security cards and other documents to avoid incorrect social security numbers (SSNs) for taxpayers, spouses, and dependents on income tax returns.

Before preparing returns or accepting returns for electronic transmission, you should review two pieces of identification (picture identifications are preferable) from each new client.

- One form of identification could include a picture reflecting at least the individual's name and the current address, such as:
 - Driver's License
 - State Identification Card
 - Military Identification
 - Alien Registration Card
 - Passport
 - Veteran's Identification Card
- The second should include the same name and the SSN the individual is using to file the tax return, such as:
 - Social security card
 - Work pay stub

Retain a copy of this information in your files for four years from the due date of the return or four years from the date the return is filed, whichever is later.

6.2 Monitoring

Our staff conducts site visits to tax practitioners, including Authorized FTB e-file Providers who are participating in our e-file Program to monitor advertising and other practices. If the situation warrants, we will issue a warning letter describing specific corrective action for deviations from advertising standards, or other practices. If the deviation is not corrected, we will issue a letter of suspension and notify the IRS. In extreme cases, we can suspend an Authorized FTB e-file Provider immediately from the program without a warning letter. The suspension will remain in effect until we determine that any deviations have been corrected.

We also:

- Monitor the quality of transmissions and returns throughout the filing season. If the quality is unacceptable, we will contact the Authorized FTB e-file Provider and may issue a warning or, in extreme cases, a letter of suspension from California's e-file Program.
- Monitor compliance with the mandatory e-file law.
- Research complaints about e-file Providers and issue warning or suspension letters, as appropriate.

6.3 Suspension

We reserve the right to suspend the electronic filing privilege of any Authorized FTB e-file Provider who violates any provision of the requirements, specifications, and procedures stated in the electronic filing procedures or who does not consistently transmit error-free returns. The following reasons could lead to a warning letter and/or suspension of an Authorized FTB e-file Provider from the e-file Program. This list is not all-inclusive:

- Conviction of any criminal offense arising from a violation of California tax statutes or revenue laws of the United States, or any offense involving dishonesty, or breach of trust
- Non-compliance with the provisions of California Business and Professions Code §22250-22259 (Tax Preparer Act)¹
- Failure to file timely and accurate returns, both business and personal
- Failure to pay business or personal tax liabilities
- Assessment of penalties under any of California's tax statutes
- Suspension/disbarment from practice before the IRS or local tax agency
- Other facts or conduct of a disreputable nature that would adversely reflect on the e-file Program
- Misrepresentation on an enrollment form
- Unacceptable format quality of individual transmissions
- Unacceptable error rate

¹ This act requires any person who for a fee, assists with or prepares a state or federal tax return excluding CPAs, Attorneys, and Enrolled Agents to register with the California Tax Education Council (CTEC).

- Violation of advertising standards
- Unethical practices in return preparation
- Stockpiling returns prior to official acceptance into California's e-file Program, or at any time while participating in California's e-file Program
- Failure of Transmitters to provide preparer clients with acknowledgment files within 48 hours of receipt from us
- Significant complaints about an Authorized FTB e-file Provider
- Misuse of an Authorized FTB e-file Provider's EFIN or ETIN
- Practices inconsistent with our recommendations revealed during site visits

6.4 Site Visits

Our staff conducts site visits to Authorized e-file Provider offices during the filing season to ensure that you are following the e-file Program requirements. We may ask you to:

- Produce a copy of the faxed or original signed form FTB 8453, FTB 8453-C, or FTB 8879 for all e-filed returns.
- Demonstrate that copies of forms FTB 8453, FTB 8453-C, and FTB 8879 are being stored in a secure manner.
- Produce any required e-file documentation maintained for the entire filing season.
- Demonstrate that copies of taxpayer returns are maintained if the ERO is also the tax preparer.
- Produce a letter of acceptance into California's e-file Program.
- Produce a \$5,000 surety bond and a Letter of Compliance from the California Tax Education Council (CTEC) if you are a registered tax preparer. (To contact CTEC, call toll free (877) 850-2832, fax toll free (877) 851-2832, or visit their Website at: www.ctec.org).
- Produce record of clients who opted out of having their return e-filed (if you meet the mandatory e-file requirement).

6.5 To Contact the Fraud Unit

For questions about fraud prevention or to make comments or suggestions about this section, contact:

**Fraud Unit, MS A-2
Franchise Tax Board
P.O. Box 1468
Sacramento, CA 95812-1468**

Fax: (916) 845-0716